



As reprinted from 01/12/2009

Cash-strapped states anxiously await federal government funds

Some states are counting on the federal economic stimulus plan being developed by President-elect Barack Obama and Congress to help them avoid deep spending cuts.

Ray Scheppach, executive director of the National Governors Association, hopes federal money will be given to states in the form of increased Medicaid funding — and not designated for specific projects such as road construction. Obama has advocated spending on roads and other public works projects as a way to create jobs.

GOVERNMENT:

Infrastructure funds "don't do anything for state budgets," but a 2-4% increase per state in the federal share of Medicaid, the health care program for the poor, would "help enormously," Scheppach says. The federal government paid 56% of the \$340 billion cost in 2008. States paid the rest.

States built large reserves before the recession and have been spending that money, says Standard & Poor's bond analyst Robin Prunty. She says the overall financial health of states remains good, and the federal bailout should help balance budgets.

Credit rating agencies have slashed bond ratings in the private sector, but ratings for states have been stable. Standard & Poor's has California and Illinois under review for possible downgrades. Kentucky is being considered for an upgrade.

How some states are coping with money problems:

Arizona:

State Treasurer Dean Martin says the state may have to borrow \$2.5 billion to \$5.7 billion in the next 100 days to meet spending obligations. "We're going to have to liquidate the 'rainy day fund' this year," he says. "It's gone." He says he's not sure a federal stimulus package will arrive in time. "My concern is they're talking about stimulus with strings and that the bailout will be for transportation infrastructure projects. ... The only thing that helps the state is cash."

California:

Facing a \$40 billion gap over the next 18 months, the state could run out of cash by February to pay tax refunds and state vendors. Gov. Arnold Schwarzenegger, a Republican, wants environmental restrictions waived so that \$1.2 billion in road projects can begin and create what he says are up to 21,600 jobs. Schwarzenegger issued an executive order forcing more than 238,000 state workers to take two-day unpaid furloughs each month.

Florida:

Legislators completed a plan Sunday to use half the state's reserve fund and up to \$700 million from a tobacco industry settlement to close a \$2.3 billion gap.

Georgia:

Gov. Sonny Perdue, a Republican, has ordered most state agencies to cut budgets by 8%, furloughed state workers and increased fees at public colleges.

Illinois:

The state owes billions of dollars to day care providers, hospitals and doctors who treat the poor. Plans to overhaul public-school financing and health care have been put off.

Indiana:

Gov. Mitch Daniels, a Republican, has ordered 10% cuts for executive-agency budgets and no pay increases for state employees, says his press secretary, Jane Jankowski, but he doesn't want to tap a \$1.4 billion rainy day fund. "The governor's philosophy is yes, it's raining now, but we don't know how much harder it might be raining in the next couple years," she says.

Iowa:

Gov. Chet Culver, a Democrat, has ordered a 1.5% across-the-board reduction in spending, spokesman Troy Price says.

Kansas:

The Legislature this week will tackle a projected budget gap that could reach \$186 million by June 30.

Louisiana:

Gov. Bobby Jindal, a Republican, plans to cut \$341 million from the current budget, including a hiring freeze on more than 1,000 state positions.

Maryland:

For the first time since 1992, about 67,000 state employees have been required to take unpaid days off, saving \$35 million. Workers were off Dec. 26 and Jan. 2. Those making \$40,000-\$60,000 will take an additional two days before July 1; those making \$60,000 and up will take three more days.

Minnesota:

Gov. Tim Pawlenty, a Republican, doesn't want to cut school aid, public safety or military and veterans' services, and he made a no-new-taxes pledge in 2002.

"When we had a significant deficit six years ago, that was on the heels of the large surpluses and there was significant reserve money," says state Sen. Richard Cohen, a Democrat who chairs the Finance Committee. "There's nothing left at this point."

New Jersey:

Gov. Jon Corzine, a Democrat, has proposed \$812 million in cuts.

New York:

Gov. David Paterson, a Democrat, recommends \$3.6 billion in cuts and at least \$4.1 billion in new taxes and fees in his 2009-10 budget.

Rhode Island:

An emergency spending plan from Gov. Donald Carcieri, a Republican, could reduce grants for cities and towns and health care. One idea under consideration: reducing the sales tax from 7% to 5% but applying it to more purchases.

Washington:

State employee unions sued Gov. Chris Gregoire, a Democrat, for suggesting that pay raises for state workers be dropped to help address a projected \$5.7 billion gap.

By Judy Keen, USA TODAY